Ferguson Partners

2021 REIT Say-on-Pay Recap:

Shareholder Support Declines in the Wake of COVID-19 Compensation Modifications

The 2021 proxy season was challenging from a Say-on-Pay perspective for the REIT industry. While results across the broader public market remained relatively stable from the prior year, the REIT industry experienced their worst results at self-managed REITs in 2013*. The impact of the COVID-19 pandemic on the operational and financial performance within certain REIT sectors and the corresponding adjustments to executive compensation programs was undoubtedly the catalyst that triggered notably low Say-on-Pay results in the REIT industry. These results are despite the fact that ISS actually issued significantly less 'Against' voting recommendations indicating shareholders' discontent with certain compensation actions in 2020.

89.9%

Average Self-Managed REIT Say-on-Pay Support

(lowest since 2013)

6

Failed Say-on-Pay Proposal at Self-Managed REITs

(record high)

3.9%

Failure Rate for Self-Managed REIT Say-on-Pay Proposals

(1.3% higher than the Russell 3000)

53.6%

Average Support at Self-Managed REITs with an 'Against' ISS Voting Recommendation

(record low)

* Say-on-Pay dynamics and results at externally managed issuers (or EMIs) are not directly analogous to self-managed companies since they do not directly compensate their executive officers and Say-on-Pay results essentially only relate to certain disclosure-related factors. Accordingly, self-managed REIT results have been separately analyzed.

2021 Say-on-Pay Snapshot

- In 2021, Say-on-Pay results were down year-over-year with self-managed REITs experiencing waning support across the board and EMIs actually improving as more REITs enhanced transparency in accordance with ISS guidelines
- 2021 produced the lowest average support at self-managed REITs since 2013 and the highest number of failures since Say-on-Pay's inception in 2011
- This was in contrast to the broader public market (represented by the Russell 3000) that experienced only modest changes year-over-year.
- See Exhibit A for a longer-term analysis of Say-on-Pay results in the REIT industry

		Average Support	ISS Against Voting Recommendations		Failed Say-on-Pay Proposals	
			#	% (1)	#	% (1)
All REITs	2021	89.5%	19	10.5%	7	3.9%
	YoY Trend	**↓ 1.0%**	**↓ 7**	**↓ 3.0%**	**↑ 2**	**↑ 1.3%**
Self-Managed REITs	2021	89.9%	13	8.6%	6	3.9%
	YoY Trend	**↓ 1.5%**	**↓ 3**	**↓ 1.5%**	**↑ 2**	**↑ 1.4%**
Externally-Managed REITs (EMIs)	2021	87.6%	6	20.7%	1	3.4%
	YoY Trend	**↑ 1.4%**	**↓ 4**	**↓ 8.7%**	**–**	**↓ 0.5%**
Russell 3000	2021	90.6%	228	11.2%	55	2.7%
	YoY Trend	**↓ 0.3%**	**↓ 29**	**↑ 0.6%**	**↑ 1**	**↑ 0.5%**

Source: ISS Corporate Solutions for data available as of July 20, 2021

(1) Reflects percentage of Against and Failed proposals as a percent of companies that held a vote in that year, as of July 20 ,2021

Evaluation of Say-on-Pay Results

Say-on-Pay is an 'advisory' shareholder vote and accordingly, the risk of low and/or significantly declining support is often just a short-term challenge for companies (nearly half of 2021 ISS 'Against' voting recommendations were at companies with no prior issues). If left unaddressed, it can result in longer-term scrutiny that can create additional pressure on other non-advisory shareholder proposals, including equity plan proposals and director re-elections.

There are generally four levels of support that warrant different types of shareholder engagement, as follows:

		% of Self-Managed REITs	
Support Level	Description	2021	YoY Trend
80% or More	Generally considered high enough support that no action is expected	**90.1%**	↑ **0.2%**
70% - 80%	Glass Lewis expects companies with less than 80% support to conduct shareholder engagement; this benchmark is generally less critical for REITs given that only 5%-10% of REIT shareholders are influenced by Glass Lewis guidance	**3.3%**	↓ **1.1%**
50% - 70%	ISS expects companies with less than 70% support to conduct shareholder engagement; this benchmark is generally the REIT industry standard to trigger the shareholder engagement process given ISS' substantial influence on Say-on-Pay results	**2.6%**	↓ **0.5%**
Less than 50%	A failed Say-on-Pay proposal requires shareholder engagement to mitigate the risk of low shareholder support on other non-advisory proposals	**3.9%**	↑ **1.4%**

Impact of ISS Voting Recommendations

ISS Say-on-Pay voting recommendations continue to be a significant factor in Say-on-Pay support levels for REITs. While ISS' evaluation continues to be heavily predicated on the quantitative analysis of CEO pay, other qualitative factors have significant impact on their voting recommendations. Key stats include:

'For' Voting Recommendations Have Low Risk of Low Support	While an 'Against' voting recommendation does not guarantee an adverse outcome, no REITs with a 'For' voting recommendation received less than 70% approval on their Say-on-Pay proposal
'Against' Voting Recommendations at REITs Cited for 'Pay-for-Performance Misalignment' Most Likely to Fail	9 out of 13 REITs (or 70%) of self-managed REITs that received an 'Against' voting recommendation were cited for pay-for-performance misalignment (67% had a High concern and 33% had a Medium concern). All of these companies were also cited for certain problematic pay practices or transparency concerns *Most of these REITs ultimately failed their Say-on-Pay proposal (5 out of 9 REITs or 56%), one received more than 50% but less than 70% support and two received more than 70% but less than 80%*
Certain 'Problematic' Pay Practices Create Challenges on a Stand-Alone Basis	For the other 30% of REITs that did not have a pay-for-performance disconnect but still received an 'Against' voting recommendation, certain problematic pay practices triggered an automatic 'Against' voting recommendation and related to either (i) adjusting performance hurdles for in-flight performance-based equity or (ii) problematic severance payments *1 out of 4 REITs (or 25%) REITs in this category failed Say-on-Pay but all received less than 70% support*

Factors Influencing ISS Voting Recommendations

This year, the most common qualitive concerns noted by ISS included modified short-term incentive plans and in-flight performance-based equity awards in response to COVID-19 disruption. The key themes identified as significant contributing factors to ISS issuing an 'Against' voting recommendation include:

60%

had **inadequate disclosure surrounding STIP performance determinations** (often COVID-related adjustments)

45%

lacked rigorous performance goals

30%

made **changes to in-flight LTI (equity) programs in response to the pandemic**

25%

outsized severance payments (including above the contractually obligated value without a strong rationale)

25%

do not provide a **cap for LTI payouts** in the event of **negative TSR**

25%

insufficiently responded to or disclosed **shareholder feedback**

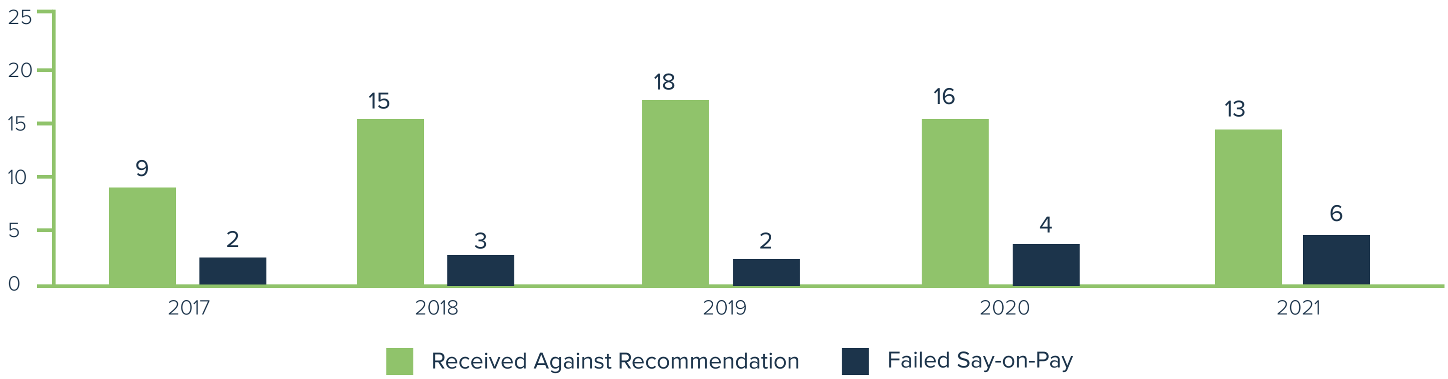
15%

had **one-time awards** with **non-rigorous performance hurdles**

Percentages are rounded to the nearest five percent.

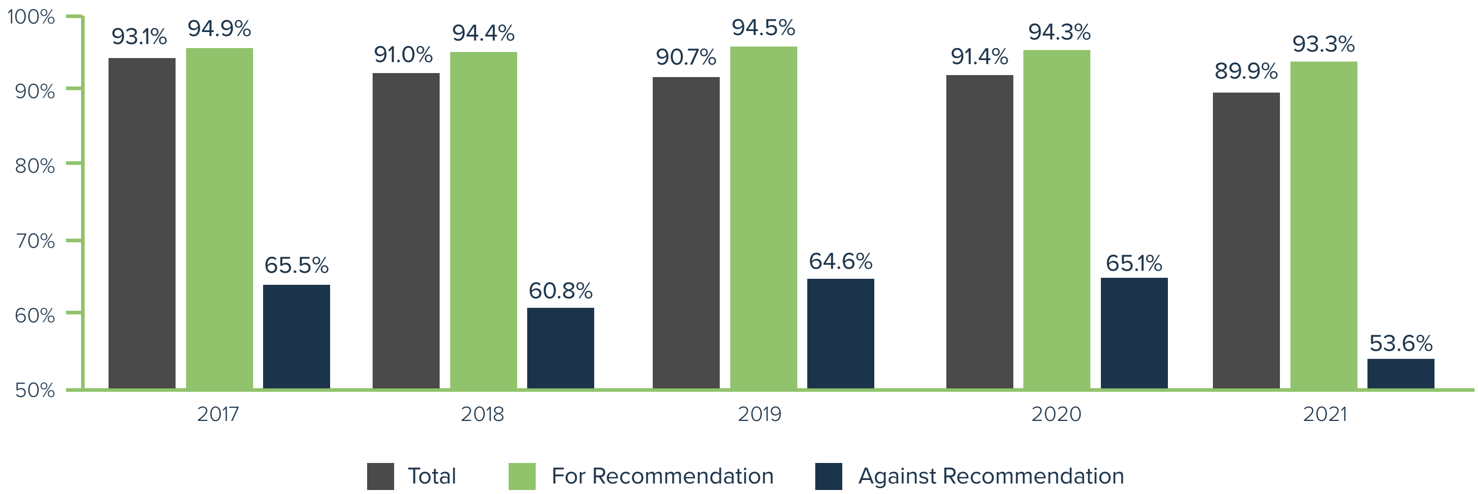
Exhibit A: Self-Managed REIT Say-on-Pay – Five-Year Trends

Number of Self-Managed REITs with an ISS Against Voting Recommendation vs. Failed Say-on-Pay Proposals



Average Support at Self-Managed REITs

(based on ISS recommendation)



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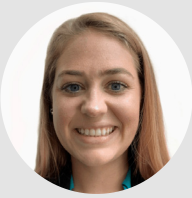

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